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STUDIES IN ECONOMIC ISSUES

INTERNATIONAL ECONOMIC PROBLEMS

(Comparative Economic Systems)

JAMES D. CALDERWOOD

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INTERNATIONAL ECONOMIC PROBLEMS

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This List indicates

The Scope of Economic Education

covered in our pamphlet series on economics

*1. The basic economic problem of limited productive resources vs. unlimited human wants.

*2. The nature and significance of specialization in economic life.

3. The basic characteristics of our enterprise system.

*4. The role of Government in economic life.

5. The role of money, credit and banking in economic life.

6. Measuring an economy's performance.

*7. The nature of economic growth.

8. Problems of achieving greater economic stability.

9. Problems of achieving greater economic security.

10. The role of the family in the economy.

11. The role of big and small business in the economy.

12. The role of labor unions and collective bargaining in the economy.

13. The role of agriculture in the economy.

14. The distribution of income.

*15. International economic relations.

*16 Types of economic systems.

**These topics are presented to the student in this pamphlet.*

GENERAL COMMENT: These topics are overlapping in content: each represents a distinct focus of attention rather than a water-tight compartment of study. The intent is to suggest a breakdown of economics that will relate conveniently to the curriculum.

DR. MARION DAUGHERTY
Consulting Economist to the Illinois
Council on Economic Education

To The Teacher

The Challenge

The American people today are confronted by international economic problems of a complexity and magnitude unknown to earlier generations. Upon the proper resolution of these problems rests the future of America and the future of freedom in the world. But these problems can never be successfully resolved by citizens who are ignorant of the significance of international trade, who cannot comprehend such matters as the problem of the balance of payments, or who misjudge the thrust and power of the U.S.S.R.'s economic challenge.

Since these problems are so fundamental that they will be with us for as far as we can see into the future, it is clear that the students now in our high schools will be called upon to deal with them when they reach adult citizenship. It is for these youths, these eleventh and twelfth grade pupils, that this pamphlet is designed. It presents a clear, concise explanation of the basic international problems with which America must contend in a world of conflict.

Relationship to the Curriculum

The use of this pamphlet is not restricted to any narrow segment of the curriculum. It applies directly to United States and World History, and to courses in economics, business education, and distributive education. Certainly, it also has a place in eleventh and twelfth grade Problems courses. In short, because the implications of the topic are at once so broad and so significant, it may be used in the whole broad spectrum of courses related to social, economic, and political affairs.

Use of the Pamphlet

In economics courses the pamphlet is an ideal supplement. It brings to the pupil fresh economic information and a new viewpoint. From this new focus the pupil can again analyze the basic economic problem of scarce resources versus unlimited demand, particularly in relation to the newly developing nations.

In American History courses the relation of our historic and changing trade policy, from Alexander Hamilton to the present can be traced. The relationship of British trade policy to the American Revolution can be studied, or the pupils might evaluate the change in the economic policies followed by the United States at the end of World Wars I and II.

In World History courses the trade policies of the French, Spanish, and British empires can be contrasted. Current economic conflict between the U.S.S.R. and the United States can be investigated, or current controversy among the Western Allies regarding trade with Red China can be explored.

In business courses the importance of foreign trade to our domestic economy can be made evident, or the necessity for international financing can be made clear.

Pupil Activities

.....Study the glossary and bring newspaper clippings which refer to the European Coal and Steel Community, the Export-Import Bank, etc.

.....Conduct a field trip or have a research group study a local business which depends upon imports or exports.

.....Check on a business which is feeling the impact of low cost imports.

.....Invite a foreign student or a business man into the classroom to discuss the need for trade, the difficulty of capital accumulation in an underdeveloped nation, etc.

.....Read the financial pages of a newspaper to learn the current exchange rates for various currencies.

.....Conduct a debate, Resolved: "The United States Should Return to a High Protective Tariff."

.....Write to the United Nations for statistics comparing production in the U.S.S.R. and the United States.

.....Find out what strategic materials the United States must import for her military defense.

.....Write to the Department of Commerce for the *Survey of Current Business* and study the balance of payments.

.....Check on the tariff levied against foreign goods—imported lace, automobiles, perfume, watches, etc.

Evaluation

.....Administer an objective test based on the glossary.

.....Have committees or individual students report on the economic progress of various underdeveloped nations.

.....Have the pupils explain the differences between tariffs, quotas, exchange controls, administrative protectionism, and export controls.

.....Test the understanding of multiple exchange by creating artificial currencies (with different values) and have the pupils engage in trading in the classroom.

.....Have the pupils keep scrapbooks of newspaper clippings, articles, graphs, charts, etc., related to international economic problems.

—Feel free to send your evaluation of this material to Curriculum Resources, Incorporated; 1515 West Lake Street, Minneapolis, Minnesota.

Harold J. Bienvenu
James D. Calderwood

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I. INTRODUCTION

SINCE WORLD WAR II, we Americans have become aware as never before of the involvement of our country in the military and political affairs of the world. The morning newspaper tells us of important events in Cuba, the Congo, Berlin, and Laos. Our TV set shows us world leaders debating significant issues at the United Nations of which our country is a member. Many of us have relatives in the armed forces who are stationed in Germany, Japan, and other countries with whom the United States has military alliances to resist communist aggression.

International economic problems do not perhaps make the headlines as often as wars, revolutions, and political crises but they are just as important. Our country carries on a great volume of foreign trade with other nations. Many American businesses have established overseas branches. This trade and these overseas operations play an important role in maintaining our prosperity. Our government gives economic aid to the underdeveloped countries of Asia, Africa, and Latin America to help them raise their living standards. It also participates in many international conferences and organizations dealing with world economic problems. The economic work of such international organizations as the World Bank and the European Common Market is important to us. Finally, the threat to the free world presented by communism is not only military and political in nature but also economic.

In short, it is important for us to know something about the economic problems of the world because they affect our welfare, security, and prosperity here in the United States.

In this pamphlet we will first discuss why world trade takes place and how it benefits those who engage in it. Then we will discuss why world trade and international investment are important specifically to the United States. Next we will find out why governments sometimes put obstacles in the way of the free flow of goods and services between nations and what is being done today to try to get rid of these and bring about freer trade. In this connection, we will note what is happening in Europe today where the European Common Market is being formed.

Then we will look at the problems of those parts of the world which are poor—the countries in Asia, Africa, and Latin America which we call underdeveloped because most people in them live in great proverty and are unable to produce enough goods and services to give themselves decent living standards. We will find out why the problems of these people are of great importance to our country and what can be done to improve the lot of these people. This will get us into a discussion of our government's foreign aid program and of the overseas activities of private American businesses.

We will then take a look at some of the international financial problems with which we have to deal. These will include foreign exchange rates and the role of gold in international economic relations.

Finally, we will take a look at the Soviet Union, which is the world's second greatest industrial nation after the United States. We must understand what is going on in the Soviet Union because that country has frankly announced its hostility to both our form of government and our free economic system. Furthermore it has declared its determination to spread communism around the world.

II. THE NATURE OF WORLD TRADE AND WHY IT TAKES PLACE.

LET US FIRST consider the nature of world trade and why it is profitable to those who engage in it.

We are familiar with the buying and selling of goods and services which goes on continuously in our own community and continuously between different parts of the United States. This is called *domestic trade*. When goods and services move between countries, however, we have *international trade* or trade between nations. As we shall see in a moment, there is no real economic difference between domestic and international trade. The economic justification for trade between the United States and Italy is the same as that for trade between Oregon and Pennsylvania or between the South and New England. But special problems do arise in international trade which we do not have to face in domestic trade. It is these special problems which justify our treating international trade as a subject apart.

Domestic and International Trade: Similarities.

First of all, what are the similarities between domestic and international trade? Trade takes place between countries for the same reason that it takes place between different parts of the same country—namely, because we can produce more goods and produce them more cheaply if we specialize, and then trade with one another, than if we try to produce everything ourselves.

For example, Montana and Argentina are both cattle-raising regions and sellers of meat. Cattle-raising requires large areas for cattle grazing and a certain type of climate, but relatively

few workers. Both Montana and Argentina have this combination of productive factors. New Jersey and England on the other hand are manufacturing areas. Manufacturing requires skilled labor and capital but relatively little space as compared with cattle-raising. Both New Jersey and England have this combination of productive factors since they are small areas with dense populations.

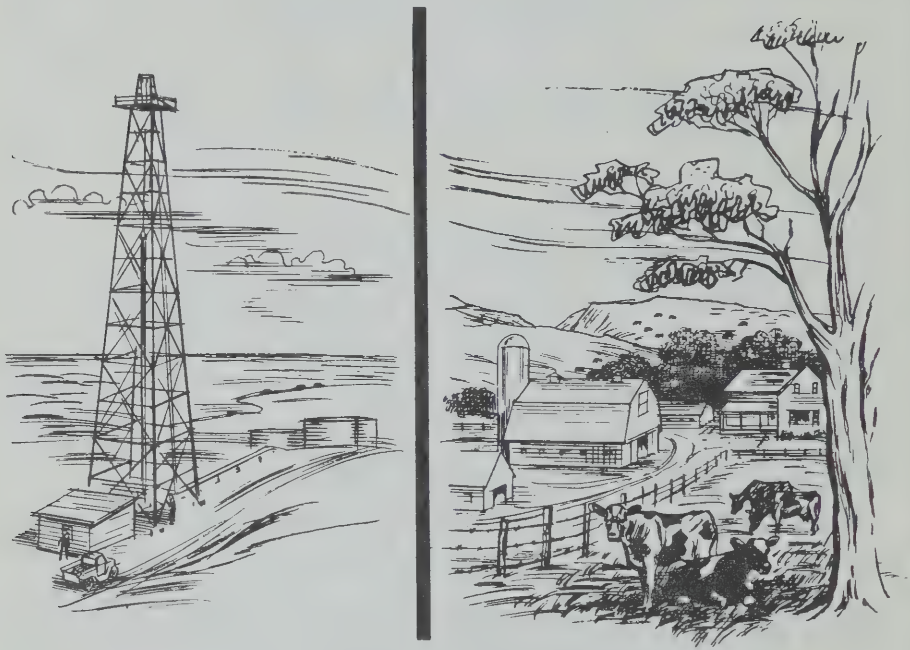
It makes sense then for Montana and Argentina to sell meat and buy manufactured goods and for New Jersey and England to do the reverse. It obviously would not make sense in our country for Montana to try to develop heavy industries and for New Jersey to go in for large-scale cattle ranches. The same is true in the case of Argentina and England.

Let us now look in more detail at the so-called *factors of production.* The necessary factors of production in any country are natural resources, human labor, and capital equipment such as machines and factories. These are unevenly distributed around the world. Consider, for example, the geography of the world. Some countries, such as India and Ghana, have very warm climates which are suitable for the growing of such tropical products as tea and cocoa. Others, such as Canada, have cooler climates which are suitable for the growing of wheat. The United States and the Soviet Union are rich in minerals, such as coal and oil. They have a great variety of soils and abundant water and forest resources. But other countries like Switzerland and Libya have very few natural resources.

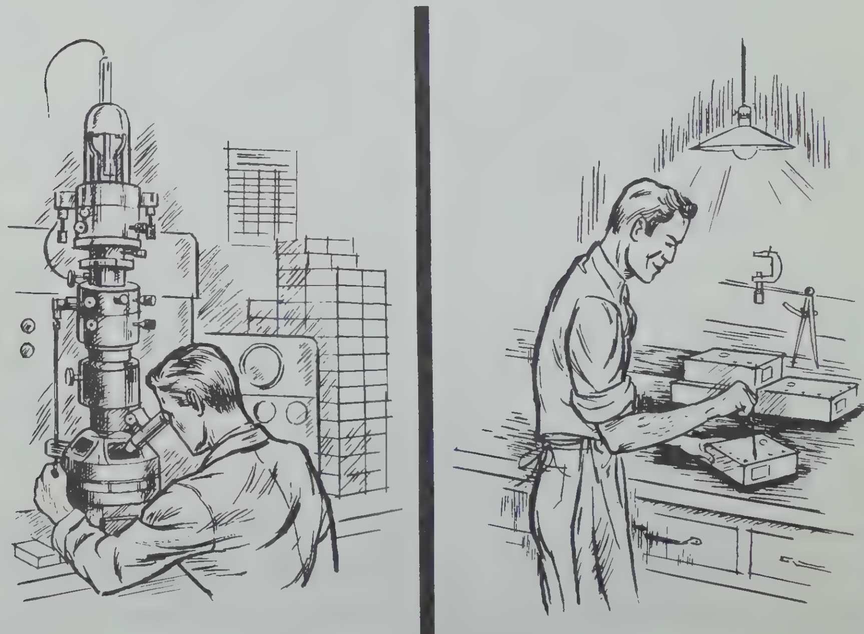
These geographical differences are one important reason for world trade. Countries sell what they are physically capable of producing and buy from others what they either do not have at all or have only in insufficient quantity.

Another important reason for trade is differences in human skills and productivity. Some countries, such as Indonesia and Pakistan, have millions of people but most of them are uneducated and lacking in the technical, administrative, and

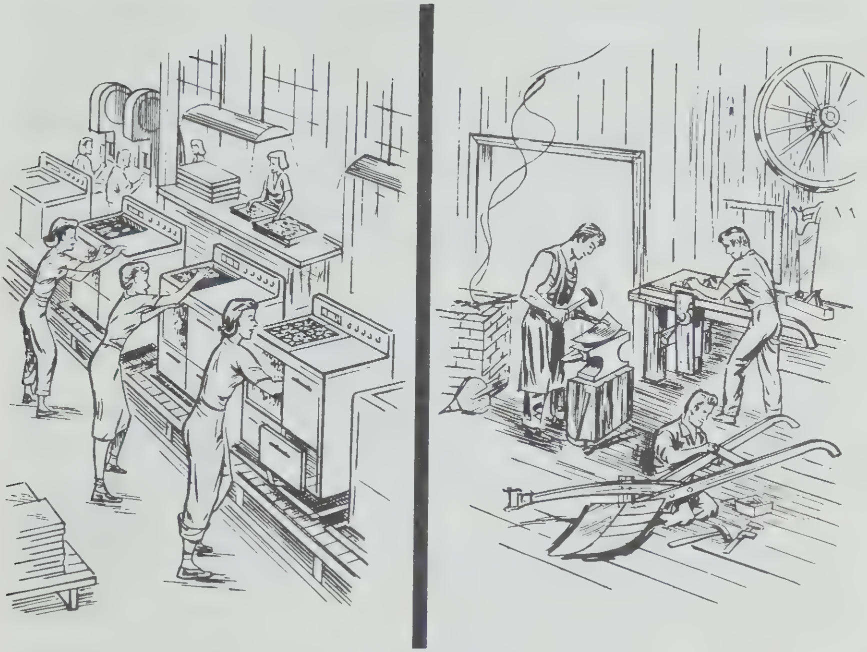
WHY TRADE TAKES PLACE



Geographic differences



Differences in human skill and productivity



Differences in capital

managerial skills which abound in our country. In such countries, most of the people carry on a rather primitive agriculture. Other countries, such as Belgium and Sweden, have small populations but most of the people have highly developed skills which enable them to produce complicated industrial products such as TV sets, refrigerators, and various kinds of machinery.

Finally, capital equipment is unevenly distributed around the world. Capital, which consists of machines, tools, factories —indeed anything which helps us produce the things we want— is a most essential factor of production. In the United States, there is on the average over $15,000 worth of capital equipment behind every worker. In many Latin American, Asian, and African countries on the other hand there is little capital and most work has to be done by hand. This means less can be produced and things cost more.

Compare, for example, the amount the American farmer can produce with the aid of his combine, milking-machine, and cotton-picking equipment with the small production of an Egyptian peasant who has virtually no capital at all except perhaps a single donkey and a wooden plow. California farmers, using modern machines for planting and harvesting rice, can sell this crop at a lower price than farmers in Burma or Thailand where all the planting and harvesting has to be done by hand.

In short, it is the uneven distribution of the factors of production around the world which provides the basis for trade. It pays to concentrate on producing goods which require large amounts of the factors which are in most abundant supply in your area and which are therefore relatively cheap. You let other countries produce goods which require large amounts of the factors which are relatively scarce in your area and which are therefore relatively expensive.

It should be remembered also that the factors of production do not exist in unlimited supply in any country, even rich ones like the United States. It is wasteful, therefore, to use your scarce factors to make goods which could be produced by someone else at lower cost. For what you would be doing would be taking these same resources away from making some other goods where they would be used more efficiently.

We can thus regard trade, whether it be domestic (within the United States) or international (between the United States and another country), as a way in which both parties can obtain something more cheaply than if produced locally. This is the way in which we can make the best use of our scarce productive resources. The United States could undoubtedly produce a number of commodities it now imports. For that matter oranges could be grown in North Dakota if we wanted to spend enough money building hot houses (and the oranges might cost $2 each as a result). But to do so would be wasteful when such products can be obtained more cheaply elsewhere.

Domestic and International Trade: Differences.

The special problems in international trade which distinguish it from domestic trade stem from the fact that we have over one hundred independent nations in the world, each with its own government. Each of these governments can and does exercise controls over trade and payments across its borders.

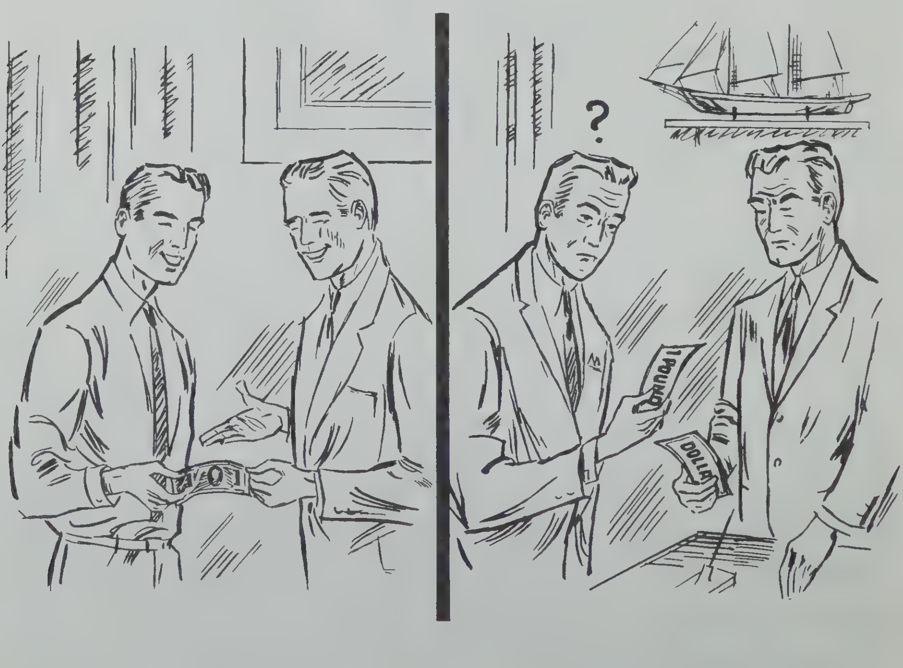
Imagine what it would be like if people in Ohio were only permitted to buy a limited number of Michigan-made cars each year or if Virginia were able to impose high taxes (called a tariff) on all goods coming into the state from neighboring North Carolina. Yet this is what happens between nations. These barriers to international trade cause great difficulties and we are fortunate that they are not permitted in domestic trade within our country.

Another distinguishing characteristic of international trade is that each country has its own money and its own banking system. This means that businessmen in the United States who wish to buy coffee in Brazil or machinery in Germany, for example, have to change their dollars into Brazilian cruzeiros or German marks before they can make a payment. Even tourists going abroad have to worry about how much foreign money they will get for each dollar and how much it will buy. Imagine what it would be like if you had to change your money when you went from Illinois into Wisconsin or from Kentucky into Tennessee. You would have to worry about the *rate of exchange*—that is, how much "foreign" money you would get for your own. Yet this is what happens in international trade.

The important thing is not so much what the money is called as what it is worth. Both the United States and Canada use dollars and cents, but on occasions in recent years one United States dollar has only been worth 95 Canadian cents. Switzerland, France, and Belgium all use francs, but the Swiss franc is worth about 25 United States cents, the French franc about 20¢, and the Belgian franc about 2¢. These differences arise

DIFFERENCES BETWEEN DOMESTIC AND INTERNATIONAL TRADE

Domestic International



because each country has its own banking system and its own policies governing the amount of money that can be issued. Therefore, even with the same name, these moneys are not worth the same.

Who Carries on Trade?

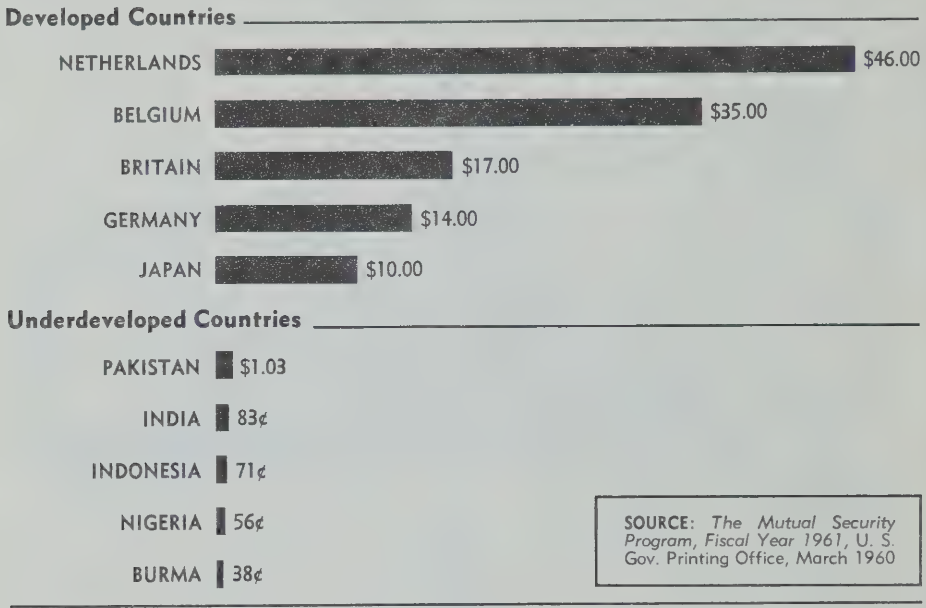
Although we usually talk about "American exports", "French imports", and so on, actually foreign trade in most countries of the world is carried on by private individuals and businesses. It is private American producers who sell automobiles, farm machinery, and jet aircraft to foreigners. It is private United States firms which import oil, iron ore, and coffee from abroad. The big exception to this is in communist countries where foreign trade, like all economic activity, is carried on by the government.

One might think that the greatest volume of trade in the world would be between dissimilar countries; for example; between industrialized countries like the United States and Japan on the one hand and agricultural countries like Indonesia and Denmark on the other. This is not the case, however. The greatest volume of trade in the world today is between the highly industrialized nations such as the United States, Germany, France, England, and Japan.

This is because these are the countries in which people have high incomes and therefore the money to buy from one another. Poor countries do less trade because the incomes of their people are low. This is one reason why so much emphasis is placed today on the economic development of poor countries. Economic development means higher incomes and higher incomes permit more trade and thus higher living standards. Right now, for example, each citizen of Burma, an underdeveloped country, buys on the average only 38¢ worth of American goods each year. But each citizen of Holland, an advanced country, buys $46 worth.

AMERICA'S CUSTOMERS

United States exports per inhabitant of country, 1959



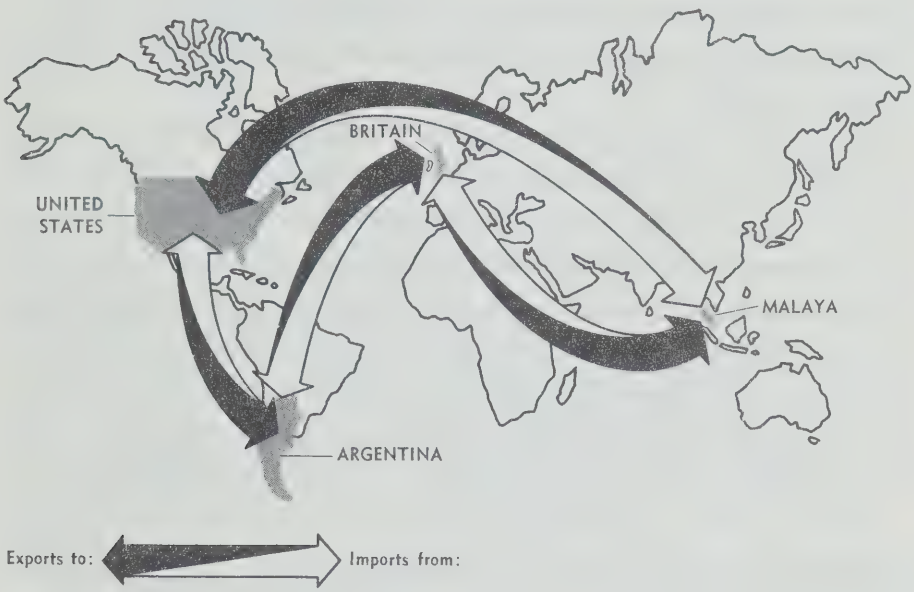
The other reason that the greatest volume of trade is between advanced industrialized countries is that these are the countries which have carried specialized production the furthest. For example, the United States exports Ford cars, Boeing jet planes, and Kodak cameras; but we import Renault cars from France, Viscount turbo-prop planes from England, and Leica cameras from Germany. We all know that a Ford and a Renault are very different types of cars. Thus specialized production provides the basis for trade.

Multilateral Trade.

Each nation wishes to buy its imports from the cheapest source and to sell its exports in the most profitable market. We know also that countries' needs for goods vary as do their abilities to produce and sell different products. There is no reason, therefore, why the exports and imports of any two countries—the United States and Argentina, say,—should be

equal; and, in fact, they are not.

Americans normally sell to Argentina more than they buy from that country each year. But Argentina sells more to Britain than she buys from her. Britain for her part sells more to Malaya than she buys from her. Finally, Malaya sells more to the United States than she buys from us.



United States exports to Argentina exceed imports from Argentina
Argentina exports to Britain exceed imports from Britain
British exports to Malaya exceed imports from Malaya
Malayan exports to United States exceed imports from United States

In this simplified example, we can think of Malaya earning more money from her sales of rubber and tin to the United States than she needs to buy American goods. So Malaya spends her excess earnings buying machinery from Britain, which in turn spends the money on Argentine meat. Finally, Argentina spends her earnings from meat sales to Britain on American oil-drilling equipment. This roundabout buying and selling is

called *multilateral trade* and its advantage is that it permits all the countries mentioned to buy and sell where they wish based on price and quality.

Multilateral trade is, of course, similar to how we behave as individuals in our own community. If you are a doctor, you don't have to perform an operation on the restaurant owner or filling-station attendant in order to get a meal or gasoline. You perform your medical services for anyone who comes to you as a patient and take payment in money which you can spend anywhere.

The big complication in international trade, however, which does not exist in your community, is that, as has already been noted, each country has a different kind of money. Thus, in our example, the Malayans have to be able to change the dollars they earn by selling rubber and tin to the United States into British pounds in order to pay for the British machinery. Similarly, the Argentines have to be able to change the British pounds they earn from their meat sales to England into United States dollars if they want to buy our oil-drilling equipment.

This problem of changing one country's money into that of another is one that has to be solved if multilateral international trade is to take place. We will return to this problem later.

III. AMERICA'S ROLE IN THE WORLD ECONOMY

The United States is a large country and government statistics show that exports and imports add up to only a small percentage of our total economic activity. Does this mean then that world trade and foreign investment are not really very important to our country? To answer this question let us look at our exports, then at our imports, and finally at our foreign investments.

The Importance of United States Exports.

Total exports of goods and services from the United States have in recent years been running at the rate of $20 to $25 billion annually. This amount has been in the neighborhood of four to five percent of our total production of all goods and services.

While this does not sound like a very great amount, we must remember that a large part of our total production consists of goods and services which have no relationship to world trade. We do not export houses, for example, nor the services rendered by TV repairmen or filling-station attendants. If we concentrate on those parts of our economy to whom foreign markets are important, we get quite a different picture.

The two areas of the American economy most dependent on foreign markets are our mechanical equipment and machine industries and our agriculture. Our exports of such products as diesel engines, trucks and busses, tractors, oil-drilling machinery, earth-moving equipment, jet aircraft, and office machines, to mention only a few, constitute sizeable percentages of the total production of these items. Depending on the year

and the particular product, anywhere from 10% to 40% of total production of important industrial products are sold in foreign markets. These industries are, of course, the ones in which specialized engineering know-how, skilled craftsmanship, and the use of complicated and expensive capital equipment give us a decided advantage in production over other nations.

Our farmers, as well, have depended on foreign buyers to take a large part of their crops ever since colonial days when the early settlers first started shipping tobacco and cotton to Europe. In recent years, from 20% to 50% of the annual production of such important crops as tobacco, cotton, wheat, and rice have been sold abroad. In 1959, for example, 51% of our cotton, 42% of our wheat, 40% of our rice, and 32% of our tobacco was shipped to foreign markets. Our farmers grow more of these farm products than can possibly be sold here at home, and any loss of overseas markets can mean accumulating surpluses and declining farm income, which indeed has happened in recent years.

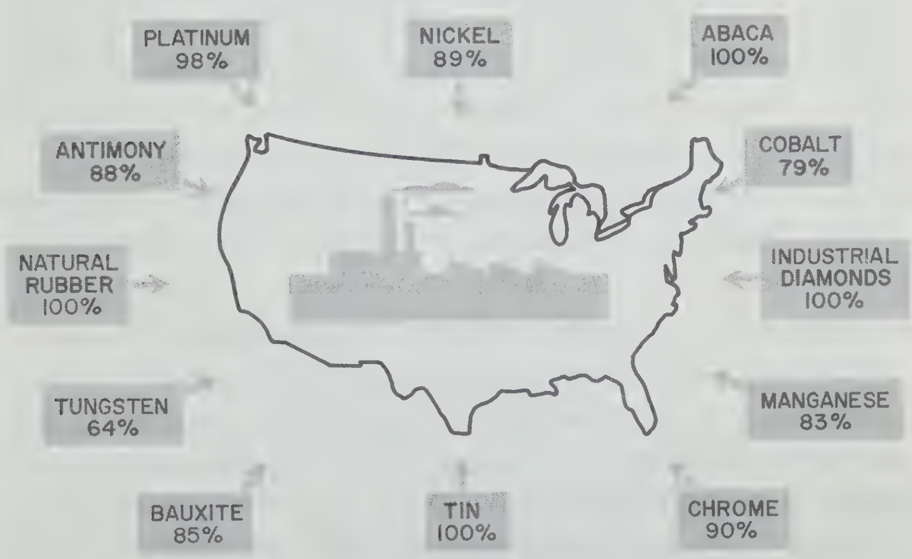
It is clear then that the jobs and incomes of millions of American workers and farmers, as well as the profits of many businesses, depend directly on our ability to export. But the importance of foreign trade goes even beyond this. If layoffs should occur in our export industries, the unemployed workers now have less money with which to buy other goods and services made in the United States. The worker who loses his job in a farm equipment factory, for example, or the farmer with a reduced income from foreign sales, may not now be able to buy a new car, or television set, or take a vacation at a resort hotel. Thus the effect of a decline in exports can spread through our economy affecting those not directly concerned with foreign trade.

In short then, because prosperity at home requires a healthy volume of foreign trade, our government must constantly be concerned with problems of foreign trade policy.

The Importance of United States Imports.

Imports are also of great importance to the American economy. Our national production of goods and services has doubled in the last twenty years. The 1960 census showed that our population had reached 180 million, an increase of 20% in ten years. This growth means an increasing demand for raw materials and foodstuffs of all kinds. Many of these, such as coffee, tea, tin, and nickel, we do not have in the United States. Others, such as oil, iron ore, copper, bauxite (for aluminum), sugar, and wool, we do produce but only in insufficient quantities. We have to import if our industries are to have enough raw materials and our people enough tropical foodstuffs.

AMERICA'S DEPENDENCE ON RAW MATERIAL IMPORTS
Per cent of total needs imported from other free nations



SOURCE: *The Mutual Security Program, Fiscal Year 1961*, U. S. Gov. Printing Office, March 1960

Studies made by government experts have shown that we are becoming increasingly dependent on foreign countries for many vital raw materials. This explains in part why American businesses are making investments in foreign countries. We need the oil of the Middle East and the bauxite of Jamaica,

for example, since our own supplies are inadequate. But these countries do not have the engineers and machines needed to produce the oil and bauxite. Hence American firms go in and do the job.

In addition to importing those products which we either do not have at all or only in inadequate quantities, we also buy many goods which other countries can produce more cheaply than we can. Of course, at the same time other countries are buying from us goods which we can make more cheaply than they can. For example, although we do make watches in the United States, we also import the high-quality watches made in Switzerland. American consumers with their high incomes also like to buy such specialty products as Wedgwood china and cashmere sweaters from England, German cameras, Danish furniture, Persian rugs, Swedish glassware, and Belgian lace. It would be wasteful to take factors of production away from our more efficient industries, such as trucks and machinery, and put them to work in less efficient industries when we can obtain the products at lower prices from abroad.

In conclusion, we can say then that imports are necessary if our economy is to continue growing and also if it is to be efficient.

The Importance of Foreign Investment to the United States.

Foreign investment has always been important to our country. In earlier days, when we were still an underdeveloped country during the nineteenth century, we lacked capital and borrowed it from Europe. The British, for example, invested large sums of money in our railroads and factories. We were thus able to increase our production more rapidly than if we had had to rely entirely on our own resources. The British benefited also from their investments in our country. We became a better market for their products, such as machinery, and also we increased our output of the things they wanted, such as wheat and cotton.

Today, of course, the United States is a developed country and does not have to borrow from England. On the contrary, we now have capital to lend to other countries. When we make investments today in such countries as Venezuela, Mexico, India, and Australia, we are helping them develop their economies. They thus become better customers for our exports and also are able to produce raw materials we need.

In recent years, Americans have been investing between two and three billion dollars a year in other countries. Most of this has taken the form of American businesses starting branches or establishing subsidiaries in foreign countries. For example, Sears, Roebuck has built stores in Panama, General Motors has built an automobile factory in Canada, the Chase-Manhattan Bank of New York has branches in Europe, and Standard Oil of New Jersey has built a refinery in England. This is known as *direct investment,* in contrast to *portfolio investment* which is the purchase by Americans of stocks and bonds in other countries.

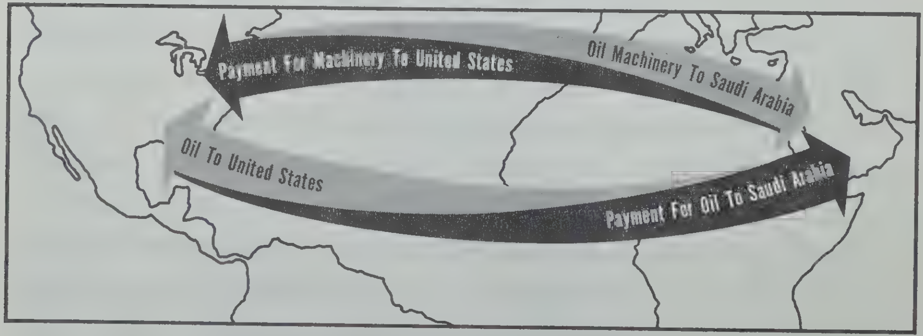
Why do American businesses start operations abroad? One reason, of course, is that many foreign countries have profitable and growing markets in which goods can be sold. This is why more American businesses start operations in rich countries like Canada and Germany, where people have money to spend, than in poor ones like Egypt or Paraguay, where people are poor.

A second reason for foreign investment by American business is that many foreign countries impose high taxes, known as tariffs, on goods coming in from abroad. By making the goods inside the country, American business can avoid this tax. This is why, for example, General Motors built an automobile factory in Windsor, Canada, only a few miles from the main company plants in Michigan. It also explains why so many United States businesses have established factories in Mexico. Countries with little industry have found that imposing a tariff is a good way to attract foreign businesses.

The third reason for American overseas investment is to produce raw materials needed by United States industry. Many of these are found in places where the local people have neither the knowledge nor the machines to produce them. The iron ore of Venezuela, the oil of Saudi Arabia, and the copper of Chile are examples of this. American engineering know-how and machinery are brought into such countries by American firms so that production can take place. The United States benefits by getting the iron ore, oil, and copper. Venezuela, Saudi Arabia, and Chile benefit because their resources are developed, their governments receive tax money from the American companies, and their citizens find good jobs.

The Link between Exports, Imports, and Foreign Investment.

The three things we have been discussing—exports, imports, and foreign investment—are closely related to one another. In the final analysis we cannot sell our goods to other countries unless we are also willing to buy theirs. This is because foreigners need dollars to pay for our goods, and the main way in which they can earn dollars is by selling their goods to us. Trade is a two-way street.



Foreign investment is also tied in with this two-way trade. When, for example, an American oil company decides to drill for oil in Saudi Arabia, it ships oil-drilling equipment made in this country to the Middle East. Later the oil is shipped to the United States. Thus foreign investment stimulates trade.

Here again we can see that the United States must be willing to import if the fruits of these foreign investments are to be enjoyed. There is no point in stimulating production abroad through our investments if we are unwilling to accept what is produced.

In short, exporting, importing, and investing are closely related processes. Together they benefit the American consumer, provide employment and income to the American worker, farmer, and businessman, and help our country's economic growth.

The Importance of World Trade and Investment to Other Countries.

International trade and foreign investment are even more important to many of the smaller countries of the world than they are to us. Some small countries, such as Holland and New Zealand, derive a third or more of their national income from foreign trade. Highly industrialized and densely populated nations like Britain and Japan cannot live without foreign trade. Britain, for example, has a population of 50 million crowded into an area about as big as Wyoming, while Japan has over 90 million people in an area the size of California. Britain and Japan can only enjoy prosperity if they are able to import food and raw materials. In order to pay for them, they must export manufactured goods.

In many of the poorer countries of the world, the attainment of higher living standards depends on foreign trade and investment. One example of this is Mexico, which has been very successful in recent years in increasing its exports of foodstuffs and raw materials, such as coffee, shrimp, cotton, and sulphur;

in developing its tourist industry; and in attracting foreign capital. The money from these sources has permitted Mexico to import the tools and machinery she needs to develop her industry and agriculture, and thus raise the living standards of her people.

Some other countries have been less successful than Mexico, however. Ghana and Brazil, for example, are still largely single-crop economies, depending on cocoa and coffee respectively for most of their income. These two countries are seriously hurt if the price at which they can sell their cocoa and coffee in other countries goes down. Whenever this happens they run short of foreign money and are unable to buy the imports they need to develop their economies.

Countries heavily dependent on the sale of a few raw materials or basic foodstuffs tend to be at the mercy of economic developments in the industrial countries of Western Europe and the United States, which are their principal markets. If, as happens from time to time, we should have a recession in our country, many other countries immediately feel the effect of it. Countries like Canada, Brazil, Venezuela, and the Philippines normally sell anywhere from one-third to one-half or even more of their exports to the United States. If we have a recession, we buy less from them and they not only run short of dollars with which to buy our goods but also suffer from unemployment and declining incomes at home. For example, when our steel industry operated at less than half of its full capacity during the recessions of 1957-58 and 1960-61, our imports of manganese, chrome, and other alloys went down.

The United States is an economic giant among nations. We have only about 6% of the world's population in our country and 6% of its land area. Yet we produce about 40% of the world's goods and services. We are the largest market for the goods of other countries, the largest exporter of manufactured goods, and the greatest supplier of capital to the world. Thus,

through the sheer size and power of our economy, we exert a great influence on other countries. For better or for worse, depending on how wisely we carry on our affairs, we affect the prosperity and growth of other nations.

We have already seen one way in which this happens. If we are prosperous and have a growing economy at home, we buy more from other countries and help make them prosperous too. We also saw earlier that the United States helps other countries grow by providing them with capital through foreign investment. A third way in which we influence the rest of the world is through what is called our *commercial policy.*

The commercial policy of a nation is the policy it follows toward exports and imports and toward the organization of world trade in general. Examples of this would be raising or lowering our tariff, signing a trade agreement with another country, joining an international organization (such as the Organization for Economic Cooperation and Development) which deals with problems of world trade, and restricting trade with communist countries.

The commercial policy of the United States is of great importance to other countries. If, for example, we should raise our tariff, as we did in 1930, we make it difficult for other countries to sell to us. This not only hurts their prosperity but also eventually means they will buy less from us. If, on the other hand, as has been the case in more recent years, we lower our tariff and permit an increasing quantity of foreign goods to enter our big home market, we help other countries to maintain prosperity and develop their economies. We also enable them to earn the dollars they need to buy goods from us.

In conclusion, we can see that the prosperity and growth of all countries in the world is closely related to expanding world trade and investment. We all depend on one another and it is not possible for one country—even a big one like ours—to be indifferent to what is going on in the rest of the world.

Moreover, the problems of world trade and investment are so complicated these days that they are beyond the ability of any one country to solve by itself. We thus have to cooperate with one another. This is why the United States belongs to so many international organizations, such as the Organization for Economic Cooperation and Development, the General Agreement on Tariffs and Trade, and the World Bank. We will discuss these later.

IV. TRADE BARRIERS AND TRADE POLICIES.

Earlier we saw that international trade is profitable to those who engage in it in the same way that domestic trade is profitable within a country. If this is so, it would not seem very sensible for countries to restrict the free entry of goods from another country. Yet every government in the world, including our own, has imposed various kinds of artificial barriers to the free movement of goods across international borders.

Let us first look at the types of trade barriers which are imposed. Then we will try to find out why nations apparently deny themselves some of the benefits of trade we have discussed by erecting these barriers. Finally, we will see what is being done in the world today to try to reduce these obstacles to freer trade.

Types of Trade Barriers.

The most common form of trade barrier is the *tariff,* which consists of taxes, known as *import duties,* levied on foreign goods coming into the country. Import duties make goods more expensive to the consumer since the importer has to raise his price to cover what he has had to pay to the government. This is why you can buy many products overseas, such as cashmere sweaters in Canada or perfume in France, more cheaply than in the United States. You are getting them without having to pay the United States import duty when you buy them in those countries.

The United States levies a wide range of import duties on foreign goods entering our country. Many raw materials and foodstuffs, which we need and do not produce here, do enter our country duty-free; but most manufactured products such as

automobiles, watches, chinaware, and bicycles, are liable to duty. Some of these duties are so high, making the item so expensive to the American consumer, that not many of them are sold in our country.

Another type of trade barrier, which is much more drastic than the tariff, is the *quota.* Here the government specifies the actual quantity of goods which is to be permitted to enter the country in one year, e.g., so many cars or so many bushels of oats. Once that amount has come in, no more may be imported until the following year. The amount of the quota is usually a subject for negotiation between governments.

The United States imposes quotas on a variety of agricultural imports. It is generally agreed that quotas are more harmful to world trade than tariffs since they prevent consumers from buying the product at all, once the quota is filled. With a tariff one can at least buy the product if one is willing to pay the higher price.

A third and even more drastic type of trade barrier is *exchange control.* This means that the government establishes control over the changing of your money into foreign money. If you want to buy foreign goods, or travel abroad, or make investments in other countries, you must ask the government for permission first. The government may give its approval to some requests but deny others. In effect, it is rationing the supply of foreign money in the way governments ofter ration food in wartime. Obviously, if you cannot get any foreign money, you cannot buy any foreign goods. Thus, exchange control can be a real barrier to world trade.

A fourth type of trade barrier is what is known as *administrative protectionism,* or more simply "red tape." The ways in which the tariff and the system of quotas are administered by government officials may in themselves constitute an obstacle to the free movement of goods. For example, the United States tariff is a very long, complicated document about the size of

the New York telephone directory. Because it is so complicated, it is often very hard for importers to know what duty they will have to pay. In one case, for example, an importer of automobile speedometers thought they would be counted as "automobile accessories" and taxed at 25% of their value. But the customs officials at the port decided they were "mechanical measuring devices" and subject to a duty twice as high.

Finally, there are *export controls.* Our government at present exercises controls over the destination of American exports. An export license has to be obtained from the Department of Commerce before certain goods can be shipped abroad. While it is easy to send goods to friendly countries such as Canada or England, we do not allow many goods to be shipped to communist countries if we think that they will help them build up their armed forces. There is thus a political motive behind these export controls.

Reasons for Imposing Barriers to Trade.

Why do governments impose these barriers to the free flow of goods between nations? Surely, if it is good to have free trade between different parts of the United States, it is also good to have free trade in the world? The answers to these questions are unfortunately not simple.

One big reason for the existence of trade barriers, or *protectionism,* as it is usually called, is that in most countries there are businesses which, for one reason or another, are unable to compete with foreign producers of the same product. They find perhaps that it costs them more to produce and sell a product than their foreign competitor and that they are therefore losing business to the imports.

These producers very often are able to persuade the government to protect them by imposing an import duty on the foreign goods. Then it will cost more to the domestic consumer and will not be so competitive. Such producers are often well-organized and are able to lobby in Congress for what they want.

Moreover, if they are laying off American workers and losing money because of foreign competition, many people are likely to think that it is reasonable that they should be protected. Consumers, who would rather pay lower prices for the foreign goods, are not organized, and, therefore, are less able to make their voices heard.

What we have just said brings out one of the most difficult problems faced by the United States in world trade. Individual businesses and workers may be hurt by foreign competition and may object vigorously if the government agrees to lower the tariff on foreign goods. Yet there is no doubt that in the long-run our country as a whole gains from freer trade. This is particularly so when we remember that our government usually only lowers our tariff when some other country agrees to lower its tariff on our goods. But a difficult political problem always arises when our government has to try to balance the immediate harm done to the less efficient business against the long-run benefit to the whole United States.

Remember too that foreign competition is really no different from competition within the United States in most cases. When automobiles were invented, many people working in livery stables or in factories making harnesses and saddles were put out of work. When television was invented, many motion picture theatres had to close. There were difficult problems for the individuals involved, and they had to find new jobs; but we did not say that the government should somehow "protect" these industries. In the long-run, we are all better off because of these new industries.

One answer to the problem is to have a growing economy which always provides new jobs for those who lose their old ones either because of new inventions at home or because of imports from abroad. Another approach is perhaps to work out ways of helping the affected individuals until they do find new jobs. For example, they might receive extra unemployment

benefits or be trained at government expense in new skills. Finally, no one suggests that we abolish our tariff overnight. If we lower it, it must be done gradually with due regard for the difficulties involved.

A second reason for the persistence of trade barriers in the world today is a very old one. In the early days of our country, during the first administration of George Washington, our Secretary of the Treasury was Alexander Hamilton. Hamilton was worried because, although we had won our political independence from England in the Revolutionary War, we were still very dependent on her for manufactured goods.

The United States at that time was an agricultural country with few industries. Hamilton thought that we would never develop our country and raise living standards until we had our own industries. Yet it was hard for new industries to be established when so many cheap British goods were coming into our country. Thus, Hamilton advocated that we have a tariff and give protection to our "infant industries" so that they could grow.

Congress followed Hamilton's advice and did impose a tariff. Most historians agree that, at least up until the Civil War, it did stimulate our industrial development. The point was that Hamilton was putting the long-run objective of the economic growth and industrial development of our country ahead of the immediate one of benefiting consumers by letting them buy British goods.

What in Hamilton's day was called the "infant industry" argument for protectionism is usually today called the *economic development argument,* and it is a popular one in many parts of the world. Today, countries like Brazil, India, Canada, Australia, and Mexico are using the same argument as we used in George Washington's day. They are imposing tariffs to help build up their industries. If they do not, they feel they will remain agricultural countries dependent on others for their

manufactured goods. In addition, as we have already seen, a tariff often persuades foreign businesses to establish factories in your country.

A third reason for the persistence of trade barriers in the world is that countries sometimes run short of foreign money. They then have to impose exchange control, as already explained, and limit the ability of their citizens to buy foreign goods.

Why do countries sometimes run short of foreign money and have to restrict purchases of foreign goods? Right after World War II, a number of countries, such as England and France, found themselves in this position because the war had damaged their economies, and they were unable to produce and sell very much to earn foreign money. Yet their need was great for foreign goods with which to reconstruct their economies.

Today the main reason for exchange control is that many countries are economically underdeveloped and need a large volume of imports of machinery and other such goods to help build up their economies. Yet, because they are not producing much themselves, they are unable to sell enough to earn the foreign exchange needed to pay for these imports. The government, therefore, strictly controls imports to make sure that the available foreign money is spent on necessary goods, such as machinery, and not on luxury items for consumers.

Finally, many countries have a tariff because it is a source of income to the government. In the early days of our history, the tariff was one of the main forms of government revenue. Even in 1900, it brought in one-third of the total revenue of our federal government. Today our tariff brings in less than 1% of the federal government's revenue, and its main purpose is not to raise money but to protect domestic producers. But in many of the less developed countries today, the government relies heavily on import duties to provide a large part of its income.

Attempts to Promote Freer Trade.

The United States had a rather high tariff from 1789 until the early 1930's. Only since 1934 have we begun to adopt a more liberal foreign trade policy.

In the early years, as already noted, we used the tariff to raise revenue for the government and also to promote economic development. Up until World War I, our tariff was of little concern to the rest of the world since our country did not play an important role in world economic affairs at that time. After World War I, however, we emerged as the greatest industrial and financial power in the world; and our commercial policy became very important indeed to other countries.

In 1934, Congress passed the *Reciprocal Trade Agreement Act,* which gave the President of the United States the power to conclude trade agreements with other countries. In these agreements, we would agree to lower individual import duties on the other country's goods in return for their agreeing to do the same on our goods.

The significance of this act was, first, that it reversed our historic policy of protectionism and started us along the road to freer trade. Secondly, it transferred a large part of the tariff-making power from Congress to the President. When Congress was responsible for establishing individual import duties, as it was before 1934, the tariff was often a political football; and the final bill reflected many local interests rather than the interests of the nation as a whole. Now the President can change the tariff in the way he thinks is best for the country.

Many trade agreements have been signed between the United States and other important countries such as Canada, England, Brazil, and France. As a result, barriers to trade have been lowered over the years.

In 1947, the United States signed the *General Agreement on Tariffs and Trade* (known as GATT). Under GATT, 23 countries (now increased to 37) agreed to meet periodically

to lower barriers to trade and to work out ways of cooperating with one another to increase world trade.

At the present time the United States has a lower tariff than at any time since the 19th century. Certain individual duties are still high, however, and from time to time particular industries succeed in persuading the President to give them more protection. The United States also still imposes quotas on a number of foreign farm products.

The arguments used today by those who wish to continue to reduce our tariff are in part economic, in part financial, and in part political. The economic argument is that international trade is a two-way proposition. We cannot sell unless we also buy. An expansion of world trade is to be desired both from the viewpoint of the growth and prosperity of the American economy in an overall sense and specifically for the consumer.

The political argument is that the free world is threatened by the Soviet Union and we and our friends should, therefore, build up our economic strength to meet this challenge. This requires a tightening of economic bonds among the free nations, the elimination of trade barriers, and international cooperation to promote expanding trade and investment.

The financial argument for freer trade is that we have made large investments abroad and can only hope to derive benefit from these if we participate in the expanding trade they make possible.

Those who oppose lowering our tariff usually emphasize that much foreign competition is "unfair" because foreign workers are paid lower wages than ours and, therefore, our goods can be undersold. Supporters of the tariff also stress the difficulties involved in making adjustments in our country to an increased flow of imports.

Besides the trade program already mentioned, other efforts are being made around the world to lower barriers to trade. One of the most important of these is in Europe where the

European Coal and Steel Community was established in 1952, and the European Economic Community (popularly known as the Common Market) in 1958. Both of these bodies were set up by France, Germany, Italy, Belgium, Holland and Luxembourg.

The European Coal and Steel Community has abolished all tariffs and quotas on steel, coal, and iron ore moving between the six countries. In addition, a new "government," with its own executive, legislature, and judiciary, was established to govern these industries. There is now a "European" coal and steel industry rather than six separate national ones. The result has been to bring about more efficient production, lower prices, and more trade.

The European Economic Community is even more ambitious. It plans a gradual reduction of tariffs among the six countries until, by 1970, there will be completely free trade in all products. In addition, there would be complete freedom of movement of workers and capital and what is called the "harmonization" of monetary, agricultural, and social policies.

The general objective of the Coal and Steel and Economic Communities is to create in Western Europe a continental economy similar to that of the United States in which the free movement of goods, people, and capital, coupled with mass production, has resulted in the highest living standards in the world.

Seven other countries in Europe—Britain, Denmark, Norway, Sweden, Portugal, Austria, and Switzerland—have concluded another arrangement of their own called the European Free Trade Association. This also aims at the elimination of trade barriers by 1970. A treaty has also been signed by eight Latin American countries to establish a Latin American Free Trade Area. Finally, sixteen European countries plus the United States and Canada are now forming the Organization for Economic Cooperation and Development which will be a

EUROPE AT "SIXES AND SEVENS"

medium for discussing problems of world trade and for working out common solutions to them.

These efforts to lower trade barriers are bearing fruit at the present time, and trade and investment are expanding. There are two areas in the world, however, where controls over foreign trade are still tight. One is in many of the underdeveloped areas where governments continue to use tariffs, quotas, and exchange control to promote the development of their own industries. The other is in trade relations between the free world and the communist countries where political considerations have resulted in a low level of trade. The United States and other free countries do not permit goods to be exported to communist countries which might strengthen them militarily. The United States does not trade at all with communist China.

V. THE ECONOMICALLY UNDERDEVELOPED AREAS OF THE WORLD.

The Nature of the Problem.

It is estimated that at least two-thirds of the population of the world lives in areas that are regarded by economists as economically underdeveloped. In such areas the vast majority of the people are poor and are living in conditions which are almost unbelievable to an American who has not seen them. They not only do not have the goods and services which we have come to regard as a normal part of modern living, but in most cases are inadequately supplied with such fundamental items as food, clothing, and decent housing. In many of these areas, the majority of the people are illiterate and suffer from a variety of diseases which have long since been wiped out in more advanced countries. Life is short and most of it is devoted to hard, back-breaking manual work without any labor-saving devices, such as machines. The majority of people in Asia, Africa, and Latin America live in these conditions of poverty.

Why do most people in the world live in conditions of poverty? Basically, these people are poor because they are unable to produce the goods and services that go to make up decent living standards. But why are they unable to produce these things?

One reason is lack of knowledge. Most of these people work much longer hours than do Americans. In many countries it is customary for men, women, and children to labor in the fields from sun-up to sun-down. But, because of debilitating diseases, malnutrition, and above all lack of knowledge as to how best to utilize the resources nature has provided, they only produce enough for a subsistence standard of living.

Another reason for the low level of production in such areas is lack of capital equipment. Millions of the world's farmers have only the most primitive of instruments, including wooden plows pulled by water buffalo or oxen, wooden spades, sickles, and even digging sticks. In many parts of the Middle East, one can still see people cultivating the soil in ways which have not changed since Biblical days.

This lack of capital equipment in agriculture means that the bulk of the population has to work long hours on the land in order to satisfy the basic need for food. That they are not always successful even in this is evidenced by the periodic famines which occur in Asia. Since most people have to work on the land, this means that few people are available for work in industry and trade. Such industries as do exist usually lack modern machines and tools.

A third reason for the poverty of many countries, particularly some of those in Asia and Latin America, is overpopulation. The birth rate is high, but the death rate is being brought down as modern medical knowledge and public health facilities are introduced. The widening gap between the birth and death rates is resulting in a rapid increase in the number of people in such countries. In India, for example, the population is increasing at the rate of eight million a year. In the United States, we tend to welcome a growing population because we think of it as meaning growing markets for business. But in India and other countries the ever-present question is how these extra mouths are going to be fed. The increases in production achieved in a year are very often used simply to satisfy the basic needs of the additional people rather than to raise living standards.

Still another reason for the low level of production in many countries is that they lack many of the social, political, and economic institutions which exist in more advanced parts of the world and which are an important element in progress. Educa-

tion is a good example. Free public education in the United States is not only a right enjoyed by all our citizens; it is also a priceless social asset in terms of the part it plays in making us a productive society. One of the greatest needs of the underdeveloped countries is for more and better education. Right now they lack schools, they lack teachers, and they lack libraries. As a result, ignorance and superstition too often prevail instead of knowledge and enlightenment.

Another important element lacking in the underdeveloped countries is a stable, efficient government. Too often, when the mass of the people are illiterate, the government tends to be in the hands of a small group of professional politicians, military men, or landowners who are not really interested in the welfare of the people. The absence of a firm base for democratic institutions creates an unstable situation which, among other things, discourages the investment of needed capital by foreigners. The Congo and Cuba in recent years are good examples of the harm that can be done to a country by political troubles.

Finally, the nature of economic life in underdeveloped areas is often not such as to encourage progress. One of the ironies of economics is that wealthy societies with a high income level find it relatively easy to save and accumulate capital and thus become even more productive, whereas poor societies with a low income level cannot save adequately and therefore, cannot accumulate the capital needed to increase production.

It is not merely the inability to save which hinders capital accumulation in such areas, however. Too often they lack a stable monetary system and such institutions as banks, insurance companies, stock exchanges, and so on, which play such an important role in our economic life. Too often the principal financial institution in underdeveloped areas is the local moneylender who often keeps the peasants in a state of virtual slavery.

Why Is The Problem Important?

The majority of the world's people have always been poor. Why then should there be so much discussion today about the problem, for it certainly is nothing new? There are two reasons for this.

One is that, for the first time, the peoples of the underdeveloped areas are no longer taking their poverty for granted. A great awakening is taking place. All over the underdeveloped world, people are emerging from centuries of fatalistic acceptance of their lot and are demanding a better life. They see the minority of the world's population which lives in the United States and Western Europe enjoying a decent standard of living made possible by modern technology. They are determined that they, too, shall have this. This great awakening of millions of the world's people has been termed "the revolution of rising expectations."

The second reason for our concern with this problem is that the peoples of the underdeveloped world are for the first time able to make their voices heard. Formerly, most of them lived in colonies or in weak, disunited countries like China before World War II. Now they are independent and are becoming powerful forces in world affairs. The so-called "Afro-Asian bloc" of underdeveloped countries now constitutes a majority of the members of the United Nations. Countries like India, the United Arab Republic, Ghana, and Tunisia now play important roles in international politics.

As these young countries look to the future, they see two alternative paths to economic development opening up ahead of them. One is the path being followed at present by India. India is trying to develop her economy and raise the living standards of her people within a framework of democratic political and economic institutions; including free elections, freedom of the press, and private enterprise. The other path is the one being followed by China. China has adopted the com-

munist method of economic development.

The world is witnessing today the early stages of an historic and fateful race between India and China, the world's two most populous countries, to see which one will be more successful in modernizing its economy and raising its living standards. The other less developed countries are interested spectators of this race. They are what has been called the "uncommitted" nations —that is, they may still go either way, toward democracy or toward communism, depending largely on economic developments.

We in the United States obviously hope that the underdeveloped countries will develop into stable, democratic societies and not become communistic. India in particular, as already noted, has a sort of symbolic status in the world today and many influential people in the United States feel that we can hardly allow her great experiment to fail. For the failure of the democratic experiment in India would leave only communism as the answer to the underdeveloped countries' economic problems.

Quite apart from the political importance of the problem of the underdeveloped countries, there is an economic factor present too. Poor countries are poor customers. The 17 million people of Canada are our country's best customers and buy far more from us than the 408 million people of India and the 90 million of Indonesia combined. This is because Canadians are productive and have high incomes. As the world's poorer countries develop, we can expect the United States to enjoy expanding and profitable trade relations with them. In addition, they will be in a better position to produce and sell to us some of the things we need if we are to have a growing economy.

(see chart on page 16)

Technical Assistance.

As already noted, one of the great needs of the peoples of underdeveloped countries is for more knowledge. If they are to become more productive, they need teachers, doctors, engineers, accountants, agricultural experts, public administrators, statisticians, and scientists. The advanced countries have this knowledge and are in a position to transmit much of it to those who need it. Much is being done today to bring this about through what are called *technical assistance programs.*

Although advanced countries have always given some technical assistance to less fortunate areas, the process was not dramatized as a world-wide problem until January, 1949, when President Truman, in his Inaugural Address, proposed what became known as the "Point Four" program. Mr. Truman said:

> "I believe that we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life. . . . . Our aim should be to help the free peoples of the world, through their own efforts, to produce more food, more clothing, more materials for housing, and more mechanical power to lighten their burdens. . . . . This should be a cooperative enterprise in which all nations work together through the United Nations and its specialized agencies wherever practicable. It must be a world-wide effort for the achievement of peace, plenty, and freedom."*

**New York Times, January 21st, 1949.*

Since that time technical assistance to underdeveloped areas has become an important international program. At the present time, technical assistance is being given by the United Nations and its special agencies such as the World Health Organization, and also by individual countries including the United States, Britain, France, and the Soviet Union. Since both the international and national programs tend to be similar in nature, we will deal with them together.

One important aspect of technical assistance consists of sending to the less developed countries experts in such fields as agriculture, public health, education, and industrial development to survey the problems, formulate plans for dealing with them, and instruct the local people in the needed skills. A second part of the program consists of carrying on research and disseminating information through publications and international clearing centers. A third part is a program of international training. This involves providing fellowships so that persons from underdeveloped countries may go abroad and study in such diverse fields as radio education, librarianship, agriculture, dentistry, etc., and then return to contribute their skills to their own people.

A few examples will illustrate the scope and importance of technical assistance programs in recent years. A mass campaign against the tropical disease known as "yaws" was carried out in Thailand by the World Health Organization and the United Nations Children's Fund. The International Labor Organization has trained foremen to work in textile mills in Iran. The International Civil Aviation Organization has trained pilots for Ethiopian Airlines.

The United Nations Educational, Scientific, and Cultural Organization (UNESCO) has established a Scientific and Technical Documentation Center in Mexico City which acts as a clearing-house for knowledge on every subject from aeronautics to zoology. Each month hundreds of publications come to the Center from all over the world to be analyzed, summarized, and translated, and the results made available to the whole world.

Since the passage by our Congress of the Act for International Development in 1950, the United States has sent hundreds of technicians to other countries and has brought many students and other persons here for training. Food and Agriculture Organization experts in the Middle East have investigated deep

well irrigation, sheep breeding, and drainage. The work of the United Nations Children's Fund was dramatized for millions of Americans by Danny Kaye on television.

International Investment and Foreign Aid.

We have already seen that one of the greatest needs of the underdeveloped countries is for more capital equipment. While the bulk of this capital must come from the savings of the people themselves, a significant contribution to economic progress can be made through international investment.

We have already seen that the United States was an underdeveloped country in the early 19th century, and that our growth was speeded up because Britain and other European countries invested capital in our country. We saw, too, that the United States is in a position now to make investments in today's less developed countries, and that this is a process which can be profitable to both lender and borrower.

International investment today may be private or public. Private investment takes place when an American firm establishes a branch plant or subsidiary in another country, as Sears Roebuck has done in Mexico, General Motors in Australia, and Standard-Vacuum Oil in India, to give only three examples. This type of investment is handled through private enterprise and its immediate purpose is to make a profit for the investing company, although, as we saw earlier, wider benefits accrue also to both the lending and borrowing countries.

Public investment takes place when an agency of the United States Government, such as the Export-Import Bank or the Development Loan Fund, makes a loan or grant to another country. This is popularly known as *foreign aid* and the money comes not from private enterprise but from the American taxpayer. In addition to foreign aid by the United States Government, public investment is also carried out today by international organizations, such as the International Bank for

Reconstruction and Development (known as the World Bank), the International Finance Corporation, and the Inter-American Development Bank. These organizations get their capital partly from the governments that belong to them and partly by selling their bonds to the public.

Since most Americans believe that private enterprise is preferable to government action, we must ask ourselves why all international investment is not left to private business. Why does the United States Government have such a large foreign aid program?

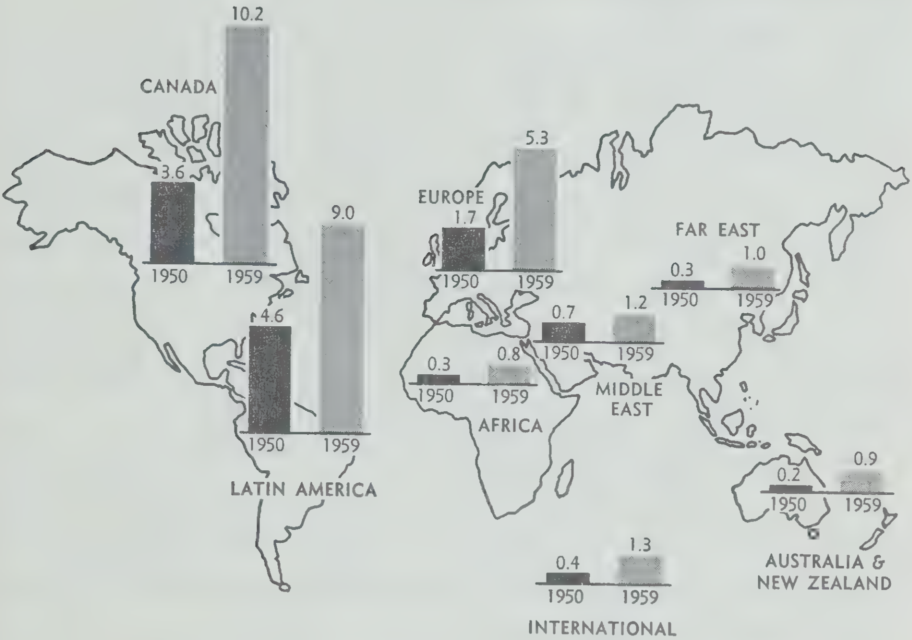
To understand this, we must remember that two conditions must be met if private international investment is to take place. First, there must be a reasonable expectation of profit for the investor. Second, there must be a good investment "climate"—that is to say, the investors must feel that their investment will be safe and that they will not lose it through government seizure or civil war or some such calamity.

Today, the bulk of United States private investment is being made in the developed areas of the world such as Western Europe and Canada. One-third of United States private investments are in Canada alone. Only a relatively small amount of private capital has gone into the vast, densely populated underdeveloped countries of Southeast Asia, Africa, etc.

The reason for this uneven distribution of United States private investment is partly that it is the developed countries such as Canada and England where incomes are the highest and where, as a result, there is the greatest possibility of making a profit by selling goods. An automobile manufacturer, for example, obviously can expect to sell more cars if he builds a plant in Canada than if he builds one in Indonesia.

It is also the developed countries which have the most stable governments and which provide the most hospitable "climate" for foreign business. Contrast, for example, the stable political situation in Australia, England, and Holland, with the situation

DIRECT FOREIGN INVESTMENTS OF THE UNITED STATES
1950 and 1959 (in billions of dollars)



Growth of United States Direct Investments
1950 and 1959 *(Billions of Dollars)*

	1950	1959
Total	**11.8**	**29.7**
Canada	3.6	10.2
Latin America	4.6	9.0
Europe	1.7	5.3
Middle East	0.7	1.2
Far East	0.3	1.0
Australia & New Zealand	0.2	0.9
Africa	0.3	0.8
International	0.4	1.3

SOURCE: *U.S. Dept. Of Commerce*
U.S. Business Investments In Foreign Countries
U.S. Gov. Printing Office, Washington, D.C. 1960 P.I.

NOTE: These figures are cumulative totals—not amounts—invested during 1950 and 1959

in Cuba, Laos, the Congo, and Jordan. Private business wants a "safe" environment. Unfortunately, it often does not find it in the underdeveloped countries.

The result is that private capital is going largely to the countries that, relatively speaking, need it the least rather than to those that need it the most. This is not to say that private investment in areas like Western Europe is not yielding good results. On the contrary, it is encouraging production and trade and contributing to a rise in living standards in those areas. But the need of the less developed areas is more desperate and they are not getting enough private capital. The gulf between the rich and the poor in this world is not narrowing but widening. This is leading to an explosive political situation.

As a result, increasing emphasis has been placed in recent years on public investment in underdeveloped countries. As already noted, this can take the form of either gifts or loans and can be provided either by governments or international organizations.

The United States foreign aid program has been a much-discussed issue since World War II and is likely to continue to be so in view of our government's plans to increase the amounts given. It is important to remember first that only about half of our foreign aid in recent years has been to promote economic development in other countries. The rest has been largely military in nature.

Actually, we can divide United States foreign aid in recent years into five types. First, there is outright military aid. This consists of shipping planes and guns to our allies to help them resist possible communist aggression. Second, there is what is called "defense support" aid. This is economic aid given to an ally to help it deal with economic problems caused by its military effort as a United States ally. Turkey and South Korea, for example, have serious economic problems as a result of devoting such a large part of their manpower and economic

resources to defense. Our defense support aid is designed to help them deal with these economic problems.

The third type of United States aid is straight economic aid to help a country develop its economy and raise its living standards. Here there are no direct military implications at all. Our aid to India is of this type. We are helping India build roads, electric power plants, and dams, and to develop a more efficient and productive agriculture and industry.

The fourth type of United States aid is known as short-term aid and at present consists mainly of shipping our surplus farm products to needy countries. While, of course, it is important to feed hungry people, particularly when we have food surpluses, such short-term aid only deals with an immediate emergency and does not solve the long-range problem of increasing production in poor countries. The fifth and last type of foreign aid takes the form of technical assistance and has already been discussed.

In the late 1940's, most of our aid was economic in nature and went to Western European countries to help them rebuild their war-ravaged economies. This was the period of the Marshall Plan, as it was called. Later, with the Korean War and the growing tension between the United States and the Soviet Union, military and defense support began to become more important. After Europe's economic recovery from World War II was completed, we began to give more aid to Asia. Today, countries like Pakistan, Turkey, Taiwan, and South Korea receive large amounts of military and defense support aid, while most economic aid goes to Asia and Latin America.

Recently, there have been signs that our government thinks that more emphasis should be put on economic aid, particularly to India and to Latin America. President Kennedy announced in early 1961 a big new economic aid program for Latin America. This came not long after former President Eisenhower had promised more economic aid to Africa. The view is held in Washington that economic aid can help these poorer countries become more stable and progressive nations.

The United States has provided over $80 billion of foreign aid since World War II. In recent years it has totaled about $5 billion annually or about 1% of our total production. As former President Eisenhower once said, foreign aid has become a permanent part of our foreign policy and will be with us indefinitely.

The most important international agency for supplying capital to less developed countries is the International Bank for Reconstruction and Development (the World Bank), which started operations in 1946 and which has a capital of $18.4 billion subscribed by 68 member governments. The World Bank makes loans to both governments and to private enterprise for the purpose of building up communications, transportation, electric power, steel plants, irrigation, docks, and other projects which are basic to the development of any country.

The World Bank makes loans out of its capital, but it also sells World Bank bonds to private investors in various countries and then re-lends the money it raises in this way. For example, in the United States, World Bank bonds are bought by insurance companies, savings banks, and other financial institutions. Thus, by a roundabout route, the savings of the American people, which they have placed in the institutions, are channeled into international investment.

As of December 31st, 1960, the World Bank had made 277 loans totaling $5.4 billion to 54 countries in the first fifteen years of its existence. Apart from some early loans to Western European countries right after World War II, the main borrowers have been India, Brazil, Japan, Mexico, Iran, Colombia, Pakistan, and Thailand. More than half of the loans have been for electric power projects and transportation facilities.

One of the criticisms of the World Bank has been that it has been too conservative in its policies and will only make "safe" investments at relatively high interest rates. What the underde-

veloped countries also need, these critics have said, is "risk capital" to promote manufacturing and trade. The World Bank will not make loans of this type.

As a result, a number of other international organizations have been established in recent years. One of these is the *International Finance Corporation* which was set up in 1956 with a capital of $100 million, subscribed by the same countries that belong to the World Bank. The IFC has made a number of investments in riskier industrial enterprises, including a Mexican automotive parts business and a firm in Thailand making concrete products.

Other international organizations providing capital which are in the news from time to time are the *Inter-American Development Bank, the International Development Association,* and the new *Social Fund* agreed on by the Organization of American States at the Bogota Conference in 1960. This last-named institution will put money into housing, schools, hospitals, and similar undertakings which the World Bank and the IFC will not touch.

What we have been primarily concerned with in this section has been the problem of economic growth. All countries are concerned with this today, but the problem is most acute in the underdeveloped areas. There is no doubt that it will continue to be one of the most important international economic problems facing the United States in the years to come.

VI. INTERNATIONAL MONETARY PROBLEMS.

THE NEXT MAJOR international economic topic we will discuss is in many ways one of the most complicated and difficult of all. It is the problem of international monetary relations. We saw earlier that one of the distinguishing features of international, as compared with domestic trade, is that countries have different monetary systems and follow different policies toward money. As a result, people who want to engage in international trade or make foreign investments or travel abroad have to worry about how much foreign money they will get when they exchange their own money into it. Unless satisfactory arrangements can be made to facilitate the international exchange of money, international trade and investment are going to be hampered.

The Balance of Payments.

First of all, we must look at a statistical concept known as the Balance of Payments (B/P). The B/P of a country lists all the economic transactions which its citizens and businesses and government had with the rest of the world during the year. In the United States, the B/P is prepared by the Department of Commerce and published regularly in the *Survey of Current Business,* a government publication.

Let us look at the B/P of the United States for the year 1960. This is shown in condensed form in the accompanying table. You will see that it is divided into two parts—receipts and payments. On the receipts side appear all the transactions between Americans and the rest of the world which involve our receiving money from abroad. The most important single item, of

Balance of Payments of the United States, 1960

(condensed)
(in billions of dollars)

United States Receipts from Abroad		
Export of Goods	$ 19.4	E.g., sale of cotton, automobiles to foreigners.
Export of Services	7.7	E.g., foreigners using our ships; foreigners spending money in the United States as tourists, etc.
Repayment of United States Government loans	0.6	Foreign governments repaying their debts to our government.
Foreign Investments in United States	0.3	Foreign businesses and individuals investing money in our country.
Total Receipts	$ 28.0	
United States Expenditures Abroad		
Import of Goods	$ 14.7	E.g., purchase of coffee, tin, Volkswagens, from foreigners.
Import of Services	6.4	E.g., Americans spending money abroad as tourists, using foreign airlines, etc.
Military Expenditures	3.0	E.g., Our armed forces buying food in Germany to feed United States soldiers stationed there; having Japanese workmen to build barracks for our troops, etc.
Foreign Aid	3.3	Our government's military and economic aid to other countries.
Private Investment	3.4	United States businesses building factories in other countries; United States citizens buying foreign stocks and bonds.
Transactions Unaccounted for	1.0	Errors and omissions in collecting the statistics.
Total Expenditures	$ 31.8	
Excess of Expenditures over Receipts	$ 3.8	The deficit in our balance of payments.
Deficit covered by:		
Gold shipments	$ 1.7	United States ships gold to other countries in part settlement of deficit.
Increase in United States debt to foreigners	2.1	Foreigners accumulate bank accounts in our banks (money they have earned but are not spending). Thus we "owe" them this money.
	$ 3.8	

(Source: United States Department of Commerce, Survey of Current Business, Feb. 1961, p. 17)

course, is our exports of goods and services. When we sell automobiles or cotton, we receive payment from the foreign buyer. When foreigners travel in our country or use our ships to transport their goods, these transactions also involve receipts for us. Finally, when foreigners repay money we have lent to them, this also constitutes a receipt for us.

On the payments side of the B/P, appear those items which involve our making payments to foreigners. The biggest item, of course, is when we buy their goods—our imports. Also on this side, appear the foreign aid that our government gives or lends to other countries, the military expenditures of our government overseas (such as the purchase of food in Germany for our troops stationed there), and the investments which our businessmen make abroad.

The B/P is a useful device for several reasons. In the first place, it tells us which types of transactions are important to a country and how it earns the foreign money it needs to pay for the things it buys from abroad. Then, also, in a rather general way, it tells us something about the demand for and supply of foreign money. The receipts side of the B/P of the United States represents a demand for dollars by foreigners who want to buy our goods and make payments to us for various reasons. The expenditures side, on the other hand, represents the amount of dollars being offered by Americans who want to acquire foreign money to make payments abroad.

But you will have noticed that in 1960 the payments being made by the citizens, businesses, and government of the United States were greater to the tune of $3.8 billion than our receipts. How can this be? How can we spend more than we earn?

The answer to this question is to be found in the last two items in the B/P. One of these is gold. Our government shipped $1.7 billions of gold to other countries during 1960 and this partly covered the difference between payments and receipts.

Other countries are ready to accept gold because it can be converted into any kind of money in the world.

The remaining amount, $2.1 billion, represents the amount of dollars earned by foreigners in this country which they did not try to convert into their own money. They simply left these dollars in our banks or in some cases bought government securities with them. In other words, the receipts and payments in the B/P actually show the transactions which involved changing one country's money (in this case our dollar) into other countries' moneys. But, in 1960, foreigners did not want to spend as many dollars as they were earning in this country. Therefore, they allowed these dollars to accumulate in their bank accounts in this country. You might say that we were going into debt to foreigners by this amount during 1960.

It is all right to go into debt to foreigners and to send them gold for a while but obviously no country can go on doing this forever. One of the problems confronting the United States at the present time, therefore, is how to bring about some sort of balance between our international receipts and expenditures.

One way, of course, would be to cut down on our expenditures until they equaled our receipts. We might do this by raising our tariff so that Americans would not buy so many foreign goods. Or we might reduce our foreign aid to other countries. But our government does not want to do either of these things, since such moves would restrict world trade and deter the development of other countries which need our capital.

The other way to bring about a balance is for us to sell more. But, if we are to sell more exports, our businessmen are going to have to work hard to produce goods which are competitive in price and quality with those produced abroad. It will not be easy to do this. Yet we should not despair. Only a few years ago, it was Western Europe which was experiencing a "dollar shortage" and wondering how to balance its international accounts. Things change rapidly in international economic relations.

Exchange Rates.

Finally, let us look at foreign exchange rates. Since so many people in all countries want to do business with people in other countries, there has to be some organized way in which they can obtain each other's money. These transactions are carried on in what is called the *foreign exchange market,* and the price you must pay in your own money to obtain someone else's money is known as the *exchange rate.* The foreign exchange market is a highly organized and technical affair consisting of banks and other specialized financial institutions.

Basically, the exchange rate between two moneys is a price and, like any other price, it is determined by the forces of supply and demand. Taking the exchange rate between the United States and Italy, for example, the demand for Italian lire comes from Americans who want to buy Italian goods, travel in Italy, and make investments in Italy, i.e., the "payments" items in our B/P. The supply of lire comes from Italians who want to buy our own goods, travel in the United States, and make investments here. These Italians are offering lire for sale in the foreign exchange market and trying to buy dollars.

If there were a completely free foreign exchange market, the dollar-lira rate would be free to fluctuate up and down on a day-to-day basis, depending on how many people were buying and selling. Thus, if the rate were $1 = 625 lire and the supply of lire forthcoming from Italians exceeded the demand for them by Americans, the lira would become cheaper to Americans. The rate might move to $1 = 640. Of course, the Italians would now have to pay a higher price for dollars.

Actually, however, it would create great uncertainty in the minds of persons engaged in international trade and investment if exchange rates kept on changing from day to day. In order to prevent this, and to encourage the expansion of trade and investment, governments have traditionally tried to manage foreign exchange markets in such a way as to keep the rates

stable. Thus, exchange rates somewhat resemble electricity rates or airline or bus fares in our own country which are kept steady by government action and do not change from day to day.

One way in which this can be done is by the government fixing the rate by decree and requiring all importers, investors, tourists, and others to obtain their foreign money through the government at this rate. Exporters and others who receive foreign money are required to surrender it to the government at the fixed rate. As we have already seen, this is known as *exchange control* and is practiced by many countries in the world, though not by the United States.

Exchange control is regarded as undesirable by those who wish trade and investment to expand. It is true you have a stable rate but it is the stability of the straitjacket. The government achieves complete control over all the foreign transactions of the nation. By granting or refusing permission to have foreign money, the government can decide who may import what and how much, who may travel abroad and when, and who may make foreign investments.

Many countries, including the United States, now belong to an organization called the *International Monetary Fund* which concerns itself with exchange rates and B/P problems. The members of the IMF all agree to keep their exchange rates stable and also to get rid of exchange control as soon as possible. It is a useful medium for international cooperation in the field of monetary problems. In addition, the IMF will under certain circumstances make loans to member countries to help them if they run short of foreign money.

VII. THE ECONOMIC CHALLENGE OF THE SOVIET UNION.

FINALLY, WE TURN to another international economic problem which is of vital concern to the United States and will continue to be in the decade ahead. This is the economic challenge to our nation and to the whole free world presented by the Soviet Union.

Our economic system is one based on freedom. Although we expect the government to perform certain important functions, basically we leave the majority of economic decisions to individual citizens. As consumers, we are free to decide how much of our income we will save and how much we will spend. We are free to decide how we will invest our savings and on what we will spend our money. We are free to decide where we want to work. We are free to go into business for ourselves and, as businessmen, we are free to decide what we want to produce. As Americans, we believe our economic system to be the best one, for it has given us the two things we want—a high standard of living and freedom.

But there is another economic system in the world—Soviet communism. This system is not based on freedom. In it, all the important economic decisions are made by the government which claims to "know best" what is good for individual citizens. We would not normally worry much about such a system if it were confined to the Soviet Union. But the Soviet leaders have made no secret of the fact that they do not propose to confine their system to their own country. They want to export it. Their aim is to spread communism over the whole world.

All of us know that the Soviet Union constitutes a military threat to the free world and, as a result, we have built up our

own defenses and spend a great deal of money each year on rockets, planes, atomic submarines, and other defense weapons. But fewer Americans realize that an important part of the Soviet threat to the free world is the economic challenge they present to us.

Putting it bluntly, the Soviet Union aims to outproduce the United States and make itself the number one economic power in the world. Premier Khrushchev, himself, has said: "You are ahead of us now; after all, you started first. But we will catch up and, when we do, this will demonstrate to the people of the world that our system is the right one." And right now the Soviet Union is doing everything it can in a ruthless and organized manner to increase industrial production and catch up with the United States.

Why does the Soviet Union think that it can become the world's leading power if it surpasses us in production? First, of course, industrial power is the basis of military power. A country's military capacity is increased as its industrial capacity is increased. But the main element in Soviet reasoning at present is what might be called the "demonstration effect." We have already seen that the underdeveloped countries of the world want more than almost anything else to raise their living standards. The Soviet Union seeks to "demonstrate" to them that the quickest way to do this is through communism.

The Soviet Union is already presenting itself to the world as a nation which has found the secret of rapid growth. Under communism, the Russians say, they have developed in one generation from a backward, agricultural country into a nation which can launch "sputniks" and shoot rockets to the moon. If they could overtake the United States in production, it would be a tremendous propaganda victory which, they think, would help swing the underdeveloped countries away from democracy and toward communism.

A third element in Soviet reasoning is that every increase in production in the Soviet Union enables that country to give more aid to underdeveloped countries, to send technical experts to them, to carry on trade with them, and, in general, to strengthen Russian ties with the rest of the world. It was our great productive capacity which made us a world power. The Russians hope to achieve power the same way.

Where do we stand today in this economic race with the Soviet Union? Can they really catch up with us in the field of production? At present, it would appear that total Soviet output of goods and services is about 45% of ours. Ten years ago it was about one-third. So they have closed the gap somewhat during the decade of the 1950's. Whether they will continue to do so during the 1960's depends, of course, first on whether they can maintain their present rate of growth and, second, on how fast we increase our production in the United States.

Our government has estimated that, if the Soviet rate of growth continues until 1970 at a rate almost as fast as during the 1950's and if our production increases during the same period at the rate of recent years, total Soviet production in 1970 would be about two-thirds of ours. But almost everyone agrees that our rate of growth in the United States in recent years has not been as satisfactory as we would wish. If we could accelerate it in the years ahead, in 1970 our production would still be almost twice as great as that of the Soviet Union.

We must be very careful, however, in drawing too optimistic conclusions from these figures even assuming they are accurate. It is not enough to say that we are producing twice as much as the Russians. The important thing is what kind of goods and services are being produced in both countries. According to Allen Dulles, director of our Central Intelligence Agency, it is the *kind* of things which both countries are producing that makes the Russian challenge so serious.

We know that most of what we produce consists of goods and services for consumers—automobiles, television sets, food, clothing, housing, entertainment, and so on. About 70% of our production is of this kind and as a result we have the highest standard of living in the world. The rest of our production consists of capital goods—that is, new factories, tools, machines, etc.—and of military goods and services for national defense.

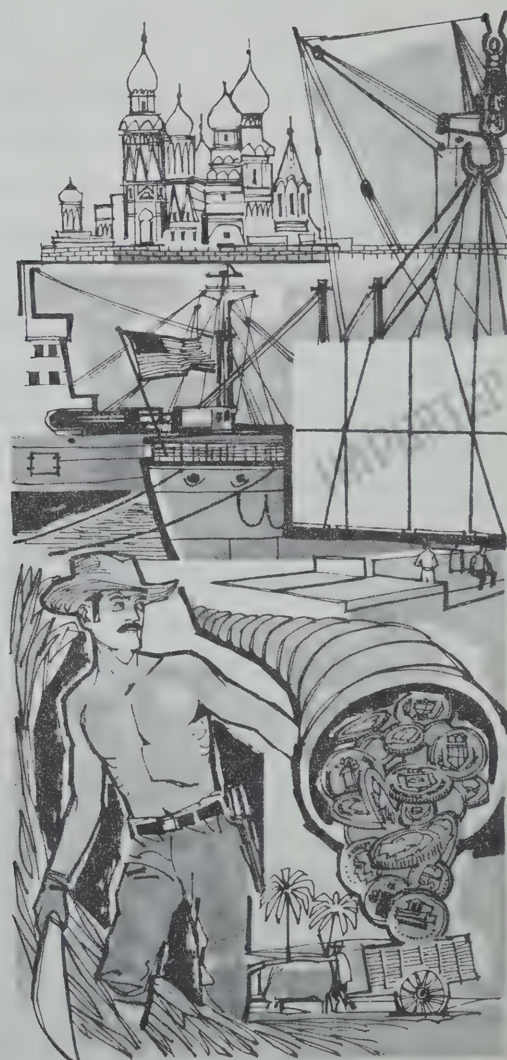
But in the Soviet Union, where the government plans all production, only about 55% of what they produce consists of goods and services for consumers. As a result, the Russian people have by our standards much lower living standards. But they are putting more into capital goods, which after all is what permits you to increase production more in the future.

Many thoughtful Americans today are concerned by these two aspects of the Soviet challenge. The first is the possibility that the Soviet Union will continue to close the gap between their output and ours. The second is that they will continue to emphasize the sinews of national power—capital goods, science, education, research, etc.—while we continue to emphasize what might be called the "fat"—that is, the comfortable life for our citizens.

As a result, a great deal of thought is being given today to the problem, first, of how we can increase our rate of economic growth and, second, what we can do to put more emphasis on the sinews of national strength. This is why we hear so much today about improving our educational facilities and encouraging private investment.

But our problem in the United States is not just to increase production. We want to do it within the framework of our traditional democratic freedoms. So the Soviet challenge really boils down to this: can a free society, which puts primary emphasis on the right of the individual to make up his own mind, meet the challenge of another society in which all activity is ruthlessly organized by the government? Premier Khrushchev

of the Soviet Union said recently that our grandchildren would live in a communist America. When he said this, he did not mean that we would be conquered in war but rather that we would be conquered by ideas. The first step toward proving him wrong is for us to understand the true nature of international economic problems.



Glossary of Economic Terms.

Act For Economic Development.
Passed in 1950 by United States Congress, this act launched our technical assistance program.

Administrative Protectionism.
Term used to describe "red tape" in the administration of tariffs, quotas, and exchange control.

Balance of Payments.
A statistical table showing all the payments made by the people, businesses, and government of a country to foreigners in one year and all their receipts from foreigners.

Capital.
This term is used to describe both the capital equipment needed in production (that is, machines, tools, factories, etc.) and the money which is needed to buy such equipment.

Commercial Policy.
The policy of the government of a country toward exports, imports, and the organization of world trade in general.

Common Market.
Popular name for European Economic Community. (See under this heading.)

Defense Support Aid.
Aid given by the United States to allies, such as Turkey and South Korea, which have economic problems as a result of maintaining large armed forces to resist communist aggression.

Demonstration Effect.
Term used to describe the favorable impression created in the minds of people in poorer countries by the successes of a more advanced political and economic system, e.g., the impact of Soviet space achievements on poor Asian countries.

Development Loan Fund.

United States government agency through which part of our foreign aid to poorer countries is channeled.

Direct Investment.

That type of international investment which takes the form of United States businesses establishing branch factories overseas, e.g., the Ford Motor Co.'s plant in England.

European Coal and Steel Community.

Established in 1952 by France, Germany, Italy, Belgium, Luxembourg, and the Netherlands, who agreed to abolish all controls on the free movement of coal, steel, and iron ore among them and to put these industries under the control of an international body called the High Authority.

European Economic Community.

Established in 1958 by France, Germany, Italy, Belgium, Luxembourg, and the Netherlands, who agreed to abolish all barriers to the free movement of all goods and of people among them by 1970 and thus to establish one big economic area like the United States instead of six separate ones.

European Free Trade Association.

Established in 1960 by seven European countries (Britain, Denmark, Norway, Sweden, Switzerland, Austria, and Portugal) who agreed that they would gradually abolish all barriers to trade among them so that by 1970 there would be free trade in the area.

Exchange Control.

The system under which all persons or businesses in a country who earn any foreign money through trade must surrender it to the government at a rate of exchange (see RATE OF EXCHANGE) determined by the government. All persons wanting foreign money for any purpose must seek permission first from the government which then rations it out.

Export Controls.

The requirement that exporters get permission of the government before shipping goods to a foreign country. Used in the United States to prevent strategic items passing into communist hands.

Export-Import Bank.

A United States government agency established in 1934 which makes loans to other countries in order that they may buy our goods and develop their economies.

Factors of Production.

The collective term used to describe natural resources, labor, and capital, which are the necessary ingredients of production.

Food and Agriculture Organization (FAO).

An international organization which seeks to improve agricultural methods and to devise ways of feeding hungry people.

Foreign Aid.

The general name given to programs under which richer countries help poorer ones develop their economies or build up their armed forces to resist aggression.

Foreign Exchange Market.

The name given to the activities of banks and other specialized financial institutions as they buy and sell foreign money on behalf of persons who wish to engage in international trade.

Fund For Social Progress.

Established at the Bogotá Conference of the American Republics in 1960. The United States agreed to provide $500 million to finance housing, education, and health facilities in Latin America.

General Agreement on Tariffs and Trade (GATT).

An agreement signed by 23 countries (including the United States) in 1947. The signatories (who now number 37) agreed to work together to lower tariffs and expand world trade.

Import Duty.

A tax levied on an imported product which makes it more expensive to the consumer. Collectively, import duties constitute a nation's tariff.

Infant Industries.

Term used in 18th and 19th centuries to refer to new industries which needed protection from foreign competition in order to get established. When used today, this is known as the economic development argument for protection.

Inter-American Development Bank.

An international institution established in 1960 by the 21 American Republics to make loans to Latin American countries.

International Bank for Reconstruction and Development (IBRD).

Popularly known as the World Bank, the IBRD was established in 1946 to make loans to countries short of capital. It has 68 countries as members.

International Civil Aviation Organization (ICAO).

An international organization which promotes cooperation among nations in the field of air transport.

International Development Association (IDA).

An international organization established in 1960 as an offshoot of the World Bank. It helps underdeveloped countries by financing needed social projects, such as housing and health facilities.

International Finance Corporation (IFC).

An international organization established in 1956 with a capital of $100 million provided by the member countries (including the United States). It invests money in the industries of poorer countries.

International Investment.

The process under which richer countries lend some of their capital to poorer ones. This can be done either by private persons and businesses or by the government. (See also DIRECT and PORTFOLIO INVESTMENT.)

International Labor Organization.

An international organization established in 1920 to work for improved working conditions around the world.

International Monetary Fund.

An international organization established in 1946 and consisting of 68 countries who work together to maintain stable rates of exchange and get rid of exchange control. (See also RATE OF EXCHANGE and EXCHANGE CONTROL.)

Latin American Free Trade Area.

An agreement reached in 1959 by seven Latin American countries. (Argentina, Brazil, Chile, Uruguay, Paraguay, Peru, and Mexico) for the purpose of eventually establishing free trade among themselves.

Marshall Plan.

The program of foreign aid started by the United States government in 1948 to help Western European countries rebuild their economies after World War II.

Multilateral Trade.

The term used to describe the roundabout system of world trade under which each country sells its exports in the most profitable market and then converts its earnings from this sale into some other country's money in order to buy its goods. This means that the exports and imports of any pair of countries will not be equal.

Organization of American States (OAS).

The organization through which the 21 American Republics work together to find solutions to common economic and political problems.

Organization for Economic Cooperation and Development (OECD).

An organization consisting of 18 European countries, the United States, and Canada established in 1961 to promote cooperation in dealing with problems of world trade and aid to underdeveloped countries.

Point Four.

The popular name for the programs of technical assistance carried out by the United States government. These programs were originally advocated by President Truman as the fourth of four foreign policy recommendations in his 1949 Inaugural Address. (See TECHNICAL ASSISTANCE.)

Portfolio Investment.

That type of international investment which takes the form of Americans lending their savings to foreigners by buying foreign stocks and bonds.

Protectionism.

The general term used to describe a commercial policy which restricts imports into a country.

Quota.

A specific quantity of a commodity is allowed into a country during a year. Once the "quota" is filled, no more can come in until the following year. A very restrictive form of protectionism.

Reciprocal Trade Agreement Program.

The program begun in 1934 under which Congress gave the President the power to negotiate trade agreements with other countries. The President is allowed to reduce some of our import duties if the other countries will lower theirs on our goods.

Rate of Exchange

The price of one country's money in terms of another, e.g., the dollar-French franc rate of exchange is $1 equals 5 francs.

Tariff.

The collective name for all the import duties levied by the government on foreign goods entering the country. (See IMPORT DUTY.)

Technical Assistance Programs.

Programs designed to pass on the skills and knowledge of advanced countries in such fields as engineering, agriculture, health, and education to the peoples of the underdeveloped countries.

Underdeveloped Areas.

The term used to describe those countries in Asia, Africa, and Latin America which are poor by our standards and which seek to raise their level of living.

United Nations Children's Fund (UNICEF).

An international organization seeking to improve health and living conditions among the underprivileged children of the underdeveloped countries of the world.

United Nations Educational, Scientific, and Cultural Organization (UNESCO).

An international organization seeking to promote international understanding through education and through cultural and scientific activities.

World Bank.

Popular name for IBRD. (See INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT.)

World Health Organization (WHO).

An international organization which fights disease and seeks to improve health conditions around the world.

TITLES A... SERIES...

SECONDARY

ELEMENTARY